B4750-1
12/7/82

Financial Markets

Irving Trust

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Friday (Noon) Dec. 3, 1982

It was another indecisive week in the credit markets, with most participants still looking for more rate drops but afraid to anticipate them, leaving markets without much immediate sense of direction. The week began on a downbeat, with rate gains and price losses--upward pressure on the Federal funds rate disappointed hopes of an immediate discount rate cut. Later in the week, however, discount rate cut hopes revived (this time on European rate cuts and U.S. unemployment, the Federal funds rate having proved an unsatisfactory bellwether), and rates edged down. The week closed with little net change from last Friday's levels, continuing the recent pattern of muddling about while waiting for the next discount rate cut.

Last week's drop in Fed funds to 8%-8.25%, as it turns out, belongs, for now at least, in the temporary aberration file. This Monday and Tuesday, funds firmed up toward 9%; the market was disappointed because the Fed did not add reserves this week in an effort to hold funds at last week's low levels. This leaves funds a bit below the discount rate, which does not signal any imminent discount rate cut.

The fact that the funds rate was not adjusted down this week and last, however, does not mean that it will not be adjusted down fairly soon. At present, the Fed is clearly paying close attention to economic developments, and recent news is grim. The 10.8% November unemployment rate announced today surprised most observers, who had expected only a marginal change from October's 10.4%. Unless unmistakable signs appear very soon of an economic recovery extending beyond the housing sector, the Fed is likely to notch rates down at least one more time; indeed, the central bank may move before waiting for more grim economic data to be reported.

One news item that many observers seized upon to support this week's discount rate cut hopes was a round of reductions in European interest rates--the idea being that this was Phase I in a coordinated international round of rate reductions that will involve the Fed. In our view, the Fed will cut the discount rate again, but not because of international agreements; that has not been its pattern despite occasional rounds of rumor to that effect. What is interesting about the European rate cuts is the reason for their timing. European governments have been more interested than the U.S. authorities (if that is possible) in bringing down rates, but their ability to cut rates has been limited by the strength of the dollar, even after last summer's U.S. rate plunge. Now, the dollar appears to be weakening without much reference to interest rates, in part in response to a looming 1983 U.S. current account deficit of massive proportions.

If in fact the dollar has begun a sustained and substantial decline, this has implications for U.S. financial markets. On the one hand, the big inflows of foreign funds that have contributed to recent gains in U.S. bond and equities markets may subside, as potential currency losses weigh against potential capital gains in foreign investors' minds. On the other hand, European central banks may intervene to limit the dollar's drop for competitive reasons. This would mean purchases of U.S. government securities, which could, as in the late 1970s, ease the burden of government deficits on U.S. financial markets.

Anne Parker Mills

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Market Yields

	12/3/82 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.50%	11.50%	15.75%
Effective since	11/22/82		
Discount Rate at Federal Reserve Bank	9.00	9.00	12.00
Federal Funds	8.88	8.25	11.75
Repurchase Agreements	8.75	8.25	11.25
U.S. Treasury Issues			
Bills			
3 months	8.14	8.25	10.40
6 months	8.72	8.68	10.95
1 year	9.07	9.08	11.35
Coupons			
2 years	9.70	9.79	12.10
4 years	10.30	10.35	12.80
7 years	10.58	10.69	13.30
10 years	10.46	10.58	13.05
Long Bond	10.47	10.50	12.85
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.50	8.40	11.40
3 months	8.65	8.60	11.30
6 months	8.80	8.95	11.60
1 year	9.20	9.30	12.40
Banker's Acceptances			
1 month	8.50	8.40	11.20
3 months	8.65	8.65	11.26
6 months	8.90	8.95	11.53
Eurodollar Deposits			
1 month	9.31	9.00	12.25
2 months	9.50	9.50	12.25
3 months	9.63	9.75	12.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.63	8.13	11.25
1 month	8.50	8.25	11.38
3 months	8.38	8.38	11.13
Bank Holding Companies			
1 month	7.50	8.25	10.75
Dealer Placed:			
3 months	8.13	8.13	11.13
New AA Corporate Utility Bond	12.00	11.95	15.38
Tax Exempt			
6 month Project Notes	4.85	4.55	6.60
1 year AAA Bond	5.00	5.25	7.75
5 year AAA Bond	7.00	7.30	8.70
20 year AAA Bond	9.50	9.00	11.25

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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